

BEFORE  
THE PUBLIC SERVICE COMMISSION OF  
SOUTH CAROLINA  
DOCKET NO. 91-641-W/S - ORDER NO. 93-402✓  
MAY 11, 1993

IN RE: Application of Carolina Water Service, ) ORDER  
Inc. for Approval of New Schedules of ) APPROVING  
Rates and Charges for Water and Sewer ) RATES AND  
Service Provided to its Customers in ) CHARGES  
its Service Area in South Carolina. )

I.

INTRODUCTION

This matter is before the Public Service Commission of South Carolina (the Commission) on the November 12, 1992, Application of Carolina Water Service, Inc. (the Company or CWS) for approval of a new schedule of rates and charges for water and sewer service provided to its customers in its service area in South Carolina.<sup>1</sup> The Application was filed pursuant to S.C. Code Ann. §58-5-240 (1976), as amended, and 26 S.C. Regs. 103-821 of the Commission's Rules of Practice and Procedure.

By letter, the Commission's Executive Director instructed the Company to cause to be published a prepared Notice of Filing and Hearing, one time, in a newspaper of general circulation in the area affected by the Company's Application. The Notice of Filing

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1. On December 16, 1991, CWS filed an original Application in this docket. The Commission allowed CWS to withdraw this Application without prejudice.

and Hearing indicated the nature of the Company's Application and advised all interested parties desiring participation in the scheduled proceeding of the manner and time in which to file the appropriate pleadings. The Company was likewise required to directly notify all customers affected by the proposed rates and charges. The Company furnished affidavits demonstrating that the notice had been duly published in accordance with the instructions of the Executive Director and certified that a copy of the notice had been mailed to each customer affected by the rates and charges proposed in the Company's Application. Petitions to Intervene were filed on behalf of Steven W. Hamm, the Consumer Advocate for the State of South Carolina (the Consumer Advocate), Ron Alexander, and Cliff Floyd.

The Company's presently authorized rates and charges were approved by Order No. 90-694, issued on August 1, 1990, in Docket No. 89-610-W/S. According to CWS' Application, the proposed rates and charges would increase water revenue by approximately \$338,154, or 23%, on average, and sewer revenue by approximately \$508,493, or 16%, on average.

The Commission Staff made on-site investigations of the Company's facilities, audited the Company's books and records, and gathered other detailed information concerning the Company's operations. The Consumer Advocate likewise conducted discovery in the rate filing of CWS.

A public night hearing relative to the matters asserted in the Company's Application was commenced on March 22, 1993, in the

River Hills Community in York County, South Carolina. The hearing was continued in the Commission's Hearing Room on March 23 and 24, 1993, and a night hearing was held on March 24, 1993. Pursuant to S.C. Code Ann. §58-3-95 (Supp. 1992), a panel of three Commission members composed of Commissioner Yonce, presiding, and Commissioners Bowers and Arthur, was designated to hear and rule on this matter. Mitchell M. Willoughby, Esquire, and B. Craig Collins, Esquire, represented the Company; Steven W. Hamm, Esquire, and Elliott F. Elam, Jr., Esquire, represented the Consumer Advocate; Ron Alexander, Esquire, and Cliff Floyd appeared pro se; and Gayle B. Nichols, Staff Counsel, and Florence P. Belser, Staff Counsel, represented the Commission Staff.

The Company presented the testimonies of Keith A. Murphy, Regional Director of Operations for South Carolina; Carl J. Wenz, Director of Regulatory Accounting for both Utilities, Inc.<sup>2</sup> and CWS; David H. Demaree, Vice President of Operations and Secretary of Utilities, Inc., and CWS; William Unthank, West Columbia City Manager; Edgar S. Weaver, Mayor and Chief Administrative Officer for Tega Cay, South Carolina; Edward M. Parler, Lexington County Administrator; Lenox E. Bramble, York County Director of Public Works and County Engineer; and Joe L. Rucker, Director of Water Supply, Construction Division, for the South Carolina Department of Health and Environmental Control (DHEC). The Consumer Advocate presented Philip E. Miller of J.W. Wilson & Associates, Inc. to

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2. Utilities, Inc. is the parent company of CWS.

testify as to its recommendations. The Commission Staff presented Norbert M. Thomas, Public Utilities Accountant, and Robert W. Burgess, Rate Analyst of the Commission's Water and Wastewater Department, to report Staff's findings and recommendations. Ron Alexander and Cliff Floyd presented statements at the March 24th night hearing. Approximately 35 public witnesses representing various subdivisions served by CWS testified.

## II.

### FINDINGS OF FACT

Based upon the Application, the testimony and exhibits received into evidence at the hearing, and the entire record of these proceedings, the Commission now makes the following findings of fact:

1. CWS is a water and sewer utility providing water and sewer service in its service areas within South Carolina, and its operations in South Carolina are subject to the jurisdiction of the Commission, pursuant to S.C. Code Ann. §58-5-10, et seq. (1976), as amended.

2. The appropriate test period for the purposes of this proceeding is the twelve-month period ending June 30, 1992.

3. By its Application, the Company is seeking an increase in its rates and charges for water and sewer service of \$847,493 which Staff has calculated to be \$863,690.

4. The appropriate operating revenues for the Company for the test year under present rates and after accounting and pro forma adjustments are \$4,401,918 which reflects a reduction in per

book revenues.

5. The appropriate operating revenues under the approved rates are \$4,577,323 which reflects a net authorized increase in operating revenues of \$175,405.

6. The appropriate operating expenses for the Company's South Carolina operations for the test year under its present rates and after accounting and pro forma adjustments are \$3,678,666, which reflects a decrease in per book expenses of \$228,305.

7. The appropriate operating expenses under the approved rates are \$3,745,127.

8. The Company's reasonable and appropriate federal and state income tax expense should be based on the use of a 34% federal tax rate and a 5.0% state tax rate, respectively.

9. The Company's appropriate level of net operating income for return after accounting and pro forma adjustments is \$729,448.

10. The appropriate net income for return under the rates approved and after all accounting and pro forma adjustments is \$839,323.

11. A year end, original cost rate base of \$10,289,037 consisting of the components set forth in Table B of this Order, should be adopted.

12. The Commission will use the operating margin as a guide in determining the lawfulness of the Company's proposed rates and the fixing of just and reasonable rates.

13. A fair operating margin that the Company should have the

opportunity to earn is 7.52% which is produced by the appropriate level of revenues and expenses found reasonable and approved herein.

14. The rate designs and rate schedules approved by the Commission and the modifications thereto as described herein are appropriate and should be adopted.

15. The rates and charges depicted in Appendix A, attached herein, and incorporated by reference, are approved and effective for service rendered on and after the date of this Order.

16. The Company should be permitted to "pass through" the wholesale rates for bulk water it purchases and provides its customers under the conditions set forth in this Order.

17. The Company should be permitted to "pass through" the charge for sewer treatment services it purchases from suppliers and provides to its customers under the conditions set forth in this Order.

### III.

#### EVIDENCE AND CONCLUSIONS

##### EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 1

The evidence supporting this finding concerning the Company's business and legal status is contained in the Company's Application and in prior Commission Orders in the docket files of which the Commission takes notice. This finding of fact is essentially informational, procedural, and jurisdictional in nature, and the matters which it involves are essentially uncontested.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 2 AND 3.

The evidence for these findings concerning the test period and the amount of the revenue increase requested by the Company is contained in the Application of the Company and the testimony and exhibits of Company witness Wenz.

On November 12, 1992, the Company filed an Application requesting approval of rate schedules designed to produce an increase in gross revenues of \$847,493 which Staff calculated using the appropriate billing units to be \$863,690. The Company's filing was based on a test period consisting of the 12 months ending June 30, 1992. The Commission Staff and the parties of record herein likewise offered their evidence generally within the context of that same test period.

A fundamental principle of the ratemaking process is the establishing of a test year period. The reliance upon the test year concept, however, is not designed to preclude the recognition and use of other historical data which may precede or postdate the selected twelve month period.

Integral to the use of a test year, representing normal operating conditions to be anticipated in the future, is the necessity to make normalizing adjustments to the historic test year figures. Only those adjustments which have reasonable and definite characteristics, and which tend to influence reflected operating experiences are made to give proper consideration to revenues, expenses, and investments. Parker v. South Carolina Public Service Commission, et.al., 280 S.C. 310, 313 S.E. 2d 290

(1984). Adjustments may be allowed for items occurring in the historic test year, but which will not recur in the future; or to give effect to items of an extraordinary nature by either normalizing or annualizing such items to reflect more accurately their annual impact; or to give effect to any other item which should have been included or excluded during the historic test year. The Commission finds the twelve months ending June 30, 1992, to be the reasonable period for which to make its ratemaking determinations herein.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 4 AND 5.

The evidence for the findings concerning the adjusted level of operating revenues is found in the testimony and exhibits of Company witness Wenz and Commission Staff witness Burgess. (See, Hearing Exhibit Nos. 6 and 10). The Company and Staff agreed on the adjustments to revenues. Therefore, for the purposes of this proceeding, the appropriate operating revenues for the Company for the test year under the present rates and after accounting and pro forma adjustments are \$4,401,918 which reflects a \$105,886 decrease in revenues. Using the Commission's Finding of Fact No. 13 and the Evidence and Conclusions, infra., approving a 7.52% operating margin, the Company's operating revenues after the approved increase are \$4,577,323.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 6, 7, AND 8.

Certain adjustments affecting expenses were included in the exhibits and testimony offered by witnesses Wenz and Murphy for the Company, witness Miller for the Consumer Advocate, and



witnesses Thomas and Burgess for the Commission Staff. (See Hearing Exhibit Nos. 3, 6, 9, and 10) This Order will address and detail only those accounting and pro forma adjustments affecting expenses which differed between the Company, the Consumer Advocate, and the Commission Staff.

#### Operators' Salaries

Both the Company and the Staff proposed to adjust Operations and Maintenance (O&M) expenses to reflect operators' salaries at July 15, 1992 on an annualized basis. In addition, Staff proposed to decrease the Company's O&M expense by \$31,900 to reflect the elimination of the salary of an employee who resigned from CWS after the test year and was not replaced. Company witness Murphy testified at the hearing that the vacant position was filled on March 22, 1993, at a salary of \$29,250. Consequently, the Commission finds and concludes that the Company should be allowed to recover as a ratemaking expense the salary and related benefits for this position.

#### Amortization of Deferred Charges

The Company and the Staff proposed to adjust O&M expenses to annualize the amortization of deferred charges for tank maintenance, Hurricane Hugo costs, and miscellaneous other charges. The Company and Staff adjustments differed by \$736. The difference in the proposed adjustments is attributable to mathematical corrections by the Staff and the Staff's elimination of one fully amortized expense item. The Commission accepts Staff's proposed adjustment.

**Depreciation And Interest Charged As Rent And Computer Operations**

The Staff and the Company proposed to eliminate interest charged as rent and depreciation on office furniture and computers allocated to CWS for the home office in Northbrook, Illinois. These amounts are reflected in the Company's operating expenses. In previous Commission decisions (See, Docket No. 88-241-W/S, Order No. 89-573 and Docket No. 89-610-W/S, Order No. 90-694), the Commission has determined that the depreciation and interest charged as rent and computer operations should be charged "below the line" and that the depreciation expense, gross plant, and accumulated depreciation associated with the home office should be directly assigned or allocated to CWS for ratemaking purposes. Staff's adjustment decreases General expenses by \$35,310, decreases O&M by \$33,708, and reflects the elimination of depreciation and interest charged as rent on the Company's share of home office facilities and is consistent with previous Commission practices. The Company proposed a similar adjustment but it varied from Staff's adjustment by a few dollars. The Commission finds Staff's adjustment to be appropriate for ratemaking purposes herein.

**Computer Operations**

The Consumer Advocate contends that the expenses associated with the Company's computer operations have not been shown to be "fully justified." Specifically, the Consumer Advocate argues that CWS' arrangement whereby its computer terminals in its regional offices are connected via data telephone line to Utility,

Inc.'s mainframe in Northbrook, Illinois is unnecessary. The Consumer Advocate contends that while all data processing costs should not be eliminated, reasonable service could be provided to CWS' customers at less cost without the necessity of the current data processing arrangement.

In Order No. 90-693, Docket No. 89-610-W/S, the Commission required CWS to submit justification for its data processing costs in its next rate application. CWS has included this cost justification in its current application. (See Hearing Exhibit No. 6). This justification includes a cost comparison of CWS' current data processing arrangement to the cost of hiring an outside data processing firm and to the cost of CWS operating its own computer in the Columbia office. CWS' cost comparison indicates that its current data processing method is less expensive than the two alternative methods. Further, Company witness Wenz testified that the alternative data processing systems would not serve its customers as well as the existing system.

The Commission concludes that CWS has adequately justified its computer expenses. While there may be other available data processing systems, it would be inappropriate for this Commission to require CWS to use another system, particularly since the Company has demonstrated that its existing system is less expensive than other available systems. The Commission concludes that there is no convincing evidence as to waste, inefficiency, or mismanagement regarding the Company's computer operations and

finds that the current cost of the data processing system, \$54,307, is an appropriate ratepayer expense. West Ohio Gas Co. v. Public Utilities Commission of Ohio, 294 U.S. 63 (1935).

#### Non-Allowables

Both the Company and the Staff proposed to adjust General expenses and O&M to transfer non-allowables to "below-the-line" for ratemaking purposes. The difference in the amount of the adjustment is due to the Staff eliminating civic club dues and charitable donations found on the Company's books during its audit. In addition, Staff removed expense items that should have been capitalized.

The Commission finds that charitable contributions and civic club dues are not appropriate ratepayer expenses. Therefore, the Commission concludes that Staff's adjustment which reduces O&M by \$11,082 and General Expenses by \$11,293 is appropriate.

#### Salaries and Wages

Both the Company and the Staff annualized office salaries based on payroll information at June 30, 1992. The difference in the adjustment, \$(16,040), is due to Staff's allocation of office salaries based on customer equivalents to Keowee Key Utilities, Inc. According to the testimony of Staff witness Thomas, Utilities, Inc. has been operating Keowee Key Utilities, Inc. since March 1992 under a management agreement between Realtec, Inc. (the current owner of the water and sewer system at Keowee Key) and Keowee Key Utilities, Inc. ( a wholly-owned subsidiary of Utilities, Inc.). Keowee Key Utilities, Inc. had requested

Commission approval of the transfer of the facilities from Realtec, Inc. The Commission denied this request. Mr. Thomas explained it was Staff's opinion that if Utilities, Inc. continues to manage Keowee Key Utilities, Inc., CWS ratepayers should not be required to absorb in their rates the expenses associated with managing Keowee Key Utilities, Inc. One of these associated expenses is office salaries.

CWS disagreed with the Staff's recommended allocation of expenses to Keowee Key Utilities, Inc. In his rebuttal testimony Company witness Wenz stated that Utilities, Inc. did not intend to manage Keowee Key Utilities, Inc. indefinitely. Consequently, Mr. Wenz testified that Staff's adjustment would not result in a level of expenses which is representative of the costs that will be incurred by CWS in the future for management of Keowee Key Utilities, Inc.

The Commission finds the Staff's adjustment appropriate. While CWS asserts it does not intend to manage Keowee Key Utilities, Inc. indefinitely, the record indicates that, as of the date of the hearing, the Company was in fact managing its sister company. The Commission concludes that CWS' ratepayers should not be required to absorb the office salaries attributable to providing service to Keowee Key Utilities, Inc. Therefore, the Commission accepts the Staff's adjustment.

#### Rate Case Expenses

The Company proposed to amortize over three years expenses associated with its prior rate case (Docket No. 88-241-W/S),

expenses associated with its original filing of the current rate case which it later withdrew, and the estimated expenses of the existing proceeding. At the hearing, the Company estimated its rate case expenses to be \$80,732.

Staff proposed an adjustment for the unamortized costs of prior proceedings plus the verified cost of the current proceeding. Staff's adjustment resulted in a \$35,155 decrease to the Company's General Expenses.

The Consumer Advocate recommended that the Commission disallow rate case expenses associated with Docket No. 88-241-W/S because the Commission denied CWS' request for an increase in its rates in that proceeding. Further, the Consumer Advocate opposed the inclusion of costs associated with the original filing in this Docket. Finally, the Consumer Advocate recommended that the Company only be permitted to recover a reasonable amount of costs, regardless of the level of its rate case expenses.

The Commission concludes that the Company should be permitted to recover over three years \$53,753 in rate case expenses. This recovery reflects the verified actual rate case expenses from this proceeding,<sup>3</sup> rate case expenses from the original filing which was later withdrawn in this proceeding, and rate case expenses associated with Docket No. 88-241-W/S. The Commission finds that, based on the complexity of issues and magnitude of discovery in this case, actual verified expenses of \$29,019 are not

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3. Staff verified actual expenses of \$29,019.

unreasonable. Moreover, there is no indication of imprudence or bad faith on the part of the Company for initially filing but later withdrawing its original application in this Docket or filing for a rate increase in Docket No. 88-241-W/S which the Commission denied.

Allocation of Water Service Corporation to

Non-Regulated Entities

Utilities, Inc. operates two businesses which are non-regulated: Illinois Corporate Travel (ICT) and Land and Lab Technologies (LLT). Utilities, Inc. does not allocate common costs such as directors' fees and officers' salaries to these non-regulated entities. Consumer Advocate witness Miller testified that Utilities, Inc. should be required to allocate all common costs to the two non-regulated entities. On rebuttal, CWS witness Wenz agreed that the Company's operating expenses should be reduced by \$2,029 to reflect an allocation of costs to the non-regulated entities.

The Commission agrees with the Consumer Advocate's proposal to allocate common costs of Utilities, Inc. to its non-regulated operations. Therefore, the Commission concludes that CWS' expenses should be reduced by \$2,029.

LLT provides testing services for CWS. Because of the relationship between the two businesses, the Consumer Advocate recommended that the Commission require CWS to file justification supporting the use of LLT's services in its next rate case application. The Commission hereby adopts this recommendation.

Salaries and Wages

CWS has operating expenses for two classifications of salaries and wages. One classification is comprised of the salaries and wages incurred directly by the Company; the other classification consists of salaries and wages allocated to the Company by Water Service Corporation.<sup>4</sup>

Mr. Miller testified that "the level of (CWS') salaries and wages could be excessive" (emphasis added). Mr. Miller explained that because there are several levels of management, there may be a duplication of effort by employees. Further, Mr. Miller explained that, although the Company provided a comparison of its salaries with the salaries of other utilities, "the results ... are certainly not conclusive, and they do not support the Company's conclusion that its salaries and wages must be reasonable."

Company witness Murphy presented CWS' comparison of the salaries of its direct employees. This comparison indicates that while the average salaries for some of its operators, particularly operators who hold A, B, and C certification, may be slightly higher than salaries of comparable operators employed by other utilities, the average salary of its other direct employees, particularly operators with Class D certification, office staff,

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4. As recognized in previous orders, Water Service Corporation is a sister company to CWS which provides engineering, accounting, legal, financial, computer, and other types of services to the Company and other affiliated utility companies. These services are provided to CWS on the basis of a service agreement that has been in effect for a number of years.



and supervisors, is less than the average salaries of some other utilities. Moreover, Mr. Murphy testified that, unlike the employees of other utilities, many of CWS' operators are certified as both water and wastewater operators and have many years of experience.

Mr. Murphy further testified that the levels of management at CWS do not result in a duplication of efforts. Mr. Murphy testified that the Area Manager is usually a senior level operator who supervises operators, that the Regional Director of Operations for South Carolina manages the entire operation in the state, and that the Office Manager supervises customer service and billing. Mr. Murphy explained that the corporate office has a staff of experts in utility operations and finance and that no one salary of corporate personnel is fully charged to CWS.

Company witness Wenz testified in regard to the salaries of Water Service Corporation personnel which are allocated to CWS. He explained that the management personnel of Water Service Corporation are the senior management of Utilities, Inc. and are responsible for the operation of 250 utility systems in 13 states. Mr. Wenz testified that 6% of their total salary, or \$54,234, is allocated to CWS.

Mr. Wenz testified that there are three Water Service Corporation employees in the Data Processing Department who are responsible for all computer functions, except meter reading and customer payments which are entered by the local offices. Mr. Wenz testified that "CWS customers receive the benefit of this...

personnel for a low cost." CWS is allocated \$9,938 of the total salaries of the Data Processing Department of Water Service Corporation.

Mr. Wenz explained that Water Service Corporation has two administrative employees, one of whom is controller and the other of whom is a customer and employee relations coordinator. Of the total Water Service Corporation salaries for administrative personnel, CWS is allocated \$17,479.

Mr. Wenz explained that Water Service Corporation also employs two receptionists, two secretaries, three accountants, two accounts payable clerks, two cost analysts, one bookkeeper, one payroll clerk, and one billing manager. Of the total \$573,593 salary for these employees, CWS is allocated \$33,863. Mr. Wenz testified as follows:

All accounting operations -- including payroll, general ledger bookkeeping, accounts payable, income tax returns, audits, property tax returns, vehicle control, material control, etc. are done by 8 people. The entire regulatory process is done by 4 people. The entire computer department consists of 2.5 people. The customer billing controls and office functions related to that are done by 3 people. We believe the entire process is extremely efficient.

Finally, Mr. Wenz presented an exhibit which indicates that CWS' annual cost per customer is less than other South Carolina water and/or sewer utilities. In addition, Mr. Wenz testified that CWS' annual cost per customer is less than the 1990 average of the 35 companies that responded to the National Association of Water Companies' annual financial survey.

Based on the substantial evidence of record, the Commission

finds that the level of salaries and wages expense of CWS is reasonable. The Commission finds that the testimony and exhibits of Company witnesses Murphy and Wenz support this conclusion. Further, the Commission is not convinced that there is a duplication of efforts on the part of CWS personnel. Therefore, the Commission denies the Consumer Advocate's recommendation to eliminate the Company's salary and wage expense.

Water Service Corporation

The Staff and the Company proposed to adjust expenses for the allocation of Water Service Corporation Common Expenses to end-of-period customer equivalents. Some expenses of Water Service Corporation are charged directly to the affiliated utility companies on the basis of actual cost or some other factor causing a direct charge, while other expenses are classified as indirect charges and are allocated to the operating companies via various allocation procedures. The Company's adjustment is a decrease of (\$38,980) and Staff's adjustment is a decrease of (\$48,120) which reflects the inclusion of Keowee Key customers in the computation of allocation percentages. The Company did not allocate any Water Service Corporation Common Expenses to Keowee Key Utilities, Inc., even though the Company has continuously operated and managed the system since March 1992. Staff reduced Operating and Maintenance expenses by \$21,042, reduced General expenses by \$24,541 and decreased Depreciation Expense by \$2,537 in its adjustment.

In making its adjustments, the Commission Staff reviewed the allocation procedures of the Company which were consistent with

previous allocations from prior rate cases of affiliated companies. The Commission finds that Staff's adjustments are consistent with the approved allocation procedures and appropriately reflect the proper level of expenses associated with the services provided by Water Service Corporation to CWS. The Commission Staff's adjustments are hereby adopted.

The Consumer Advocate recommended that the Commission require the Company to file a study in its next proceeding demonstrating that allocations are made in an appropriate manner. The Commission finds that there has been no evidence that the current allocation method is inappropriate and, therefore, denies this request.

#### Excluded Subdivisions

Staff and the Company proposed to remove the expenses applicable to Oakatee and Black Horse Run Subdivisions from this proceeding. Oakatee had been sold after the test year and CWS did not request an increase in rates for Black Horse Run. The Staff's adjustment also included an allocated portion of Interest on Customer Deposits. The Commission approves Staff's adjustments to expenses in the following amounts: reduce O&M expenses by \$51,399, reduce General expenses by \$2,109, reduce Depreciation by \$19, reduce Taxes other than Income by \$6,446, and reduce Interest on Customer Deposits by \$703.

#### Allocation Between Operating Companies

The Staff made an adjustment to allocate Insurance, Transportation Expenses, Depreciation and Office Expenses between operating companies based on customers served and end-of-period

customer equivalents. No other party proposed such an adjustment. The Staff eliminated expenses allocated from the CWS office of North Carolina to Black Horse Run Subdivision and allocated Office Expenses from CWS to Keowee Key Utilities, Inc., since the CWS office is performing the customer service and billing functions for Keowee Key Utilities, Inc. The Commission finds that Staff's adjustments appropriately reflect the proper level of expenses associated with the services provided by CWS to Keowee Key Utilities, Inc. The Commission Staff's adjustments are hereby adopted.

#### Pensions and Benefits

The Staff and the Company proposed to adjust pensions and benefits resulting from the end of period payroll annualization. Since the Commission has allowed an adjustment for salaries and wages, it is appropriate for the Commission to likewise adjust pensions and benefits resulting from the end-of-period payroll annualization. Staff's calculation of \$(24,205) reflects a reallocation of employee benefits among operating companies and elimination of benefits for an employee no longer employed. The Commission finds that the Commission Staff's adjustments to pensions and benefits are appropriate as modified to include the employee recently replaced and are adopted for ratemaking purposes herein. (See, discussion under Operators' Salaries).

#### Annualization of Depreciation

The Staff and the Company proposed to annualize depreciation expense based on year-end plant levels and pro forma additions.

The Company proposed to increase depreciation expense by \$75,979. The Commission Staff proposed to increase depreciation expense by \$36,173. Staff's adjustment uses straight line depreciation at 2% on depreciable plant in service, a straight line 20% depreciation rate on transportation equipment, eliminates fully-depreciated vehicles, includes depreciation on Water Service Corporation rate base excluding plant previously found by the Commission to be non-allowable, and includes depreciation on items reclassified from O&M expenses. The Company's adjustment reflects a 25% depreciation rate on transportation equipment, includes depreciation on fully-depreciated vehicles, and includes depreciation for pro forma additions expected to be completed by January 1993.

As to the inclusion of depreciation for various construction projects projected to be completed after June 30, 1992, the Staff included depreciation on those additions actually completed at January, 1993. The Consumer Advocate opposed including plant additions if not completed and opposed including any depreciation expense.

The Commission finds that the Staff's adjustment to increase Depreciation expense by \$36,173 properly reflects the depreciation expense based on year-end plant levels as adjusted, appropriate depreciation rates, and appropriate ratemaking principles. Staff's adjustment is adopted for ratemaking purposes herein.

#### Payroll Taxes

Both the Company and the Staff proposed to adjust payroll taxes for the end of period salaries and wages adjustment. The

Commission Staff made an adjustment to the Company's payroll taxes to correct allocation percentages and to eliminate one employee. The Commission, based on its recognition of the appropriateness of a salaries and wages adjustment, finds that an adjustment to payroll taxes is also appropriate. The Commission finds that a decrease to Operating Taxes of (\$1,987) should be adopted for ratemaking purposes herein.

#### Interest on Customer Deposits

Staff proposed to annualize interest on customer deposits. The Staff used an 8% rate and calculated an adjustment in the amount of (\$6,674). The Commission finds Staff's adjustment to be consistent with the Commission's prior practices and approves same.

#### Customer Growth

The Company and the Staff proposed to record the effects of customer growth. The Company and the Staff used a growth factor based on the formula as previously approved by this Commission to calculate customer growth. Based on Staff's formula, the Commission finds the appropriate amount of customer growth to be \$6,196.

The Commission will hereby adjust general taxes, and state and federal income taxes to reflect all adjustments approved herein. All accounting and pro forma adjustments proposed by the Staff and not objected to by any other party are hereby approved. All other adjustments proposed by any party inconsistent therewith have been reviewed by the Commission and found to be unreasonable or inappropriate for ratemaking purposes and are hereby denied.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 9 AND 10.

Based on the Commission's determinations concerning the Accounting and Pro Forma adjustments to the Company's revenues and expenses, and its determination as to the appropriate level of revenues and expenses, (see, Evidence and Conclusions for Finding of Fact No. 13) net income for return is found by the Commission as illustrated in the following Table:

TABLE A

NET INCOME FOR RETURN

BEFORE RATE INCREASE

Operating Revenues	\$4,401,918
Operating Expenses	<u>3,678,666</u>
Net Operating Income	723,252
Interest During Construction	-0-
Customer Growth	6,196
Net Income for Return	<u>\$ 729,448</u>

AFTER RATE INCREASE

Operating Revenues	\$4,577,323
Operating Expenses	<u>3,745,127</u>
Net Operating Income	832,196
Interest During Construction	-0-
Customer Growth	7,126
Net Income for Return	<u>\$ 839,322</u>

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 11

The evidence supporting the findings concerning proper methodology and level of cash working capital and proper items to be included in the Company's rate base can be found in the exhibits and testimony of Company witness Wenz, Consumer Advocate witness Miller and Commission Staff witness Thomas. The rate base, as



allocated to the Company's operations, is composed of the value of the Company's property used and useful in providing water and sewer service to the public, plus materials and supplies, and an allowance for cash working capital, less accumulated depreciation, accumulated deferred income tax (liberalized depreciation), contributions in aid of construction, advances in aid of construction, plant acquisition adjustments, cost in excess of book value and customer deposits. Prior to the date of the hearing, the Accounting Department of the Administration Division of the Commission Staff, conducted an audit and examination of the Company's books and records, including rate base items, with plant additions and retirements. On the basis of this audit, the exhibits and the testimony contained in the entire record of the hearing, the Commission can determine and find proper balances for the components of the Company's rate base and other items. The Commission's determinations relative to the Company's rate base for its water and sewer operations appear in the paragraphs below.

#### Gross Plant In Service

The Commission has traditionally used the regulatory accounting methodology recognized as "original cost less accumulated depreciation" in the determination of the value of a utility's plant in service. The record of the instant proceeding presents no justification for a departure from this methodology which was utilized by the Commission Staff in calculating the Company's jurisdictional gross plant in service per books of \$25,236,525. The Commission Staff proposed adjustments to Plant in

Service for the effects of the Staff's adjustments to capitalize a portion of the end of period wage adjustment, include plant additions that were completed by January 1993, eliminate investment items associated with the excluded subdivisions, include capitalized items reclassified from O&M expenses, include an allocated portion of Water Service Corporation rate base excluding those items previously found to be non-allowable by the Commission, and reflect the proper allocation of vehicles and computers to CWS. Based upon the Commission's discussion and treatment of the depreciation expense, the Commission approves Staff's adjustments to Gross Plant In Service. The net effect of these adjustments is to increase Gross Plant in Service by \$187,075. The Commission finds \$25,423,600 to be the appropriate figure for the Gross Plant in Service.

#### Accumulated Depreciation

In determining the proper rate base for utilities, the Commission has consistently applied a methodology which reduces the figure for the gross plant used and useful in providing public service by a reserve for depreciation and amortization. This reserve for depreciation and amortization for CWS' operations reflected a "per books" figure of \$1,695,750.

With the expense adjustments previously approved herein, the Commission is of the opinion, and so finds, that the Company's per books reserve for depreciation and amortization for South Carolina operations should be increased by \$177,304. Consequently, the reserve for depreciation and amortization to be used for ratemaking

purposes in this proceeding is \$1,873,054.

Cash Working Capital

The Commission has normally considered an allowance for cash working capital to be an appropriate item for inclusion in the rate base of a water and sewer utility. By permitting a cash working capital allowance, the Commission acknowledges the requirement for capital expenditures related to the routine operations of the utility. The Company's use of "as adjusted" figures in calculating its cash working capital allowance is not consistent with the Commission's accepted practice of using corrected "per book" numbers in the calculation. Additionally, the Company proposed to include deferred charges in its rate base. This would include tank maintenance, main breaks, etc., any item for which an expenditure had been made but for which the expense has not yet been reflected in the income statement. The Company requested that the Commission permit deferred charges to be included in the rate base in the amount of \$500,616. The Consumer Advocate and the Commission Staff opposed such an adjustment. The Company is asking the Commission to make a selective adjustment to its methodology for determining rate base. The Commission is of the opinion that the Company has presented no reason for the Commission to change its present method of excluding deferred charges from rate base. Therefore, the Company's proposal is denied. The Commission hereby includes a 45 day cash working capital allowance of \$368,178 based upon Staff's calculations.

Contributions In Aid of Construction

Advances In Aid of Construction

In determining the proper rate base for a utility, this Commission has generally considered contributions in aid of construction (CIAC) and advances in aid of construction (AAC) to be elements upon which investors are not entitled to earn a return and should be excluded from rate base. Items such as tap fees, plant impact fees, and customer payments for construction of a line for service are considered to be ratepayer contributions and are not properly part of the rate base. The Company and Commission Staff proposed to eliminate CIAC and AAC from CWS' rate base. This is consistent with the Commission's past practices and no party presented any evidence convincing the Commission that it should not accept this treatment.

Plant Acquisition Adjustment

The Company and the Staff adjusted Plant Acquisition Adjustment to reflect the elimination of the excluded subdivisions. The adjustment increased rate base in the amount of \$84,581. Based upon the Commission's discussion, supra, concerning elimination of the subdivisions, the Commission finds that Plant Acquisition Adjustment should reflect a balance of \$(687,408).

Excess Book Value

The Commission has previously determined in other rate cases that excess book value is a proper deduction from rate base. In this instance, the Company's rate base should be reduced by \$815,238.

Accumulated Deferred Income Taxes

The accumulated reserves for Deferred Income Taxes resulting from liberalized depreciation and other items are considered by this Commission as an element on which investors are not entitled to earn a return and therefore should be excluded from rate base. The Commission finds that the amount to be deducted from rate base is \$593,521 as proposed by the Commission Staff.

Customer Deposits

The amount representing customer deposits and accrued interest on customers' deposits is considered an element upon which the Company's investors are not entitled to earn a return and is deducted from the Company's rate base. The Commission Staff proposed that the rate base be reduced by \$328,411 representing customer deposits. Staff's proposal is hereby adopted.

The Company's rate base, as herein adjusted and determined by the Commission to be appropriate for the purposes of this proceeding, is set forth as follows:

TABLE B

ORIGINAL COST RATE BASE

JUNE 30, 1992

Gross Plant in Service	\$25,423,600
Accumulated Depreciation	(1,873,054)
Net Plant in Service	<u>23,550,546</u>
Cash Working Capital	368,178
Construction Work in Progress (CWIP)	-0-
Contributions in Aid of Construction	(11,199,009)
Advances in Aid of Construction	( 6,100)
Plant Acquisition Adjustment	( 687,408)
Excess Book Value	( 815,238)
Accumulated Deferred Income Taxes	( 593,521)
Customers' Deposits	<u>( 328,411)</u>
TOTAL RATE BASE	<u>\$10,289,037</u>

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 12 AND 13

Under the guidelines established in the decisions of Bluefield Water Works and Improvement Co. v. Public Service Commission of West Virginia, 262 U.S. 679 (1923), and Federal Power Commission v. Hope Natural Gas Co., 320 U.S. 591 (1944), this Commission does not ensure through regulation that a utility will produce net revenues. As the United States Supreme Court noted in the Hope Natural Gas decision, supra, the utility "has no constitutional rights to profits such as are realized or anticipated in highly profitable enterprises or speculative ventures." However, employing fair and enlightened judgment and giving consideration to all relevant facts, the Commission should establish rates which will produce revenues "sufficient to assure confidence in the financial soundness of the utility and...that are adequate under efficient and economical management, to maintain and support its credit and

enable it to raise the money necessary for the proper discharge of its public duties." Bluefield, supra, at 692-693.

Neither S.C. Code Ann. §58-5-290 (1976) nor any other statute prescribes a particular method to be utilized by the Commission to determine the lawfulness of the rates of a public utility. For ratemaking purposes, this Commission examines the relationships between expenses, revenues, and investment in an historic test period because such examination provides a constant and reliable factor upon which calculation can be made to formulate the basis for determining just and reasonable rates. This method was recognized and approved by the Supreme Court for ratemaking purposes involving utilities in Southern Bell Telephone and Telegraph Co. v. The Public Service Commission of S.C., 270 S.C. 590, 244 S.E.2d 278 (1978).

For water and sewerage utilities, where the utility's rate base has been substantially reduced by customer donations, tap fees, contributions in aid of construction, and book value in excess of investment, the Commission may decide to use the "operating ratio" and/or "operating margin" as guides in determining just and reasonable rates, instead of examining the utility's return on its rate base. The operating ratio is the percentage obtained by dividing total operating expenses by operating revenues. The obverse side of this calculation, the operating margin, is determined by dividing net operating income for return by the total operating revenues of the utility.

The Company presented witness Wenz to support rate base

treatment for ratemaking purposes. The Consumer Advocate testified that CWS should be regulated using rate base treatment only if the Staff offered testimony using a rate of return on rate base.

The Commission will not adopt a rate of return on rate base approach. The Commission finds that the testimony presented concerning rate of return is insufficient to convince the Commission that such an approach should be adopted in this proceeding. Moreover, the Commission finds it would be inappropriate to establish a rate of return where only one witness presented testimony as to the appropriate return on common equity.

In this proceeding the Commission will use the operating margin as a guide in determining the lawfulness of the Company's proposed rates and, if necessary, the fixing of just and reasonable rates. This method was recognized as an acceptable guide for ratemaking purposes in Patton v. South Carolina Public Service Commission, 280 S.C. 288, 312 S.E.2d 257 (1984).

The following Table indicates the Company's gross revenues for the test year, after accounting and pro forma adjustments under the presently approved schedules; the Company's operating expenses for the test year after accounting and pro forma adjustments; and the operating margin under the presently approved schedules for the test year.



TABLE C

Operating Revenues	\$4,401,918
Operating Expenses	<u>3,678,666</u>
Net Operating Income (Loss)	723,252
Add: Customer Growth	<u>6,196</u>
Total Income for Return (Loss)	<u>729,448</u>
Operating Margin (After Interest)	5.33%

The following Table shows the effect of the Company's proposed rate schedule, after accounting and pro forma adjustments approved herein:

TABLE D

Operating Revenues	\$5,265,608
Operating Expenses	<u>4,005,919</u>
Net Operating Income	1,259,689
Add: Customer Growth	<u>11,077</u>
Total Income for Return	<u>1,270,766</u>
Operating Margin (After Interest)	14.73%

The Commission is mindful of those standards delineated in the Bluefield decision, supra, and of the balance between the respective interest of the Company and of the consumer. The Commission has considered the spectrum of relevant factors in this proceeding: the revenue requirements for the Company, the proposed price for which the Company's service is rendered, the quality of that service, and the effect of the proposal upon the consumer, among others.

The three fundamental criteria of a sound rate structure have been characterized as follows:

...(a) the revenue-requirement or financial-need objective, which takes the form of a fair-return standard with respect to private utility companies; (b) the fair-cost apportionment objective which invokes the principle that the burden of meeting total revenue

requirements must be distributed fairly among the beneficiaries of the service; and (c) the optimum-use or consumer rationing under which the rates are designed to discourage the wasteful use of public utility services while promoting all use that is economically justified in view of the relationships between costs incurred and benefits received.

Bonbright, Principles of Public Utility Rates (1961), p. 292.

The Commission has considered the proposed increase presented by the Company in light of the various standards to be observed and the interests represented before the Commission. The Company presented the testimonies of witnesses Wenz and Murphy who provided information concerning the capital improvements to the Company's water and wastewater treatment facilities, the increasing cost of complying with the Safe Drinking Water Act, the Clean Water Act, and other regulatory requirements, the increase in CWS' property taxes, as well as the Company's efforts in being more responsive to customer complaints.

The Commission is aware of the number of public witnesses testifying in opposition to the rate increase. Several witnesses opposed the amount of the increase while others testified they were dissatisfied with their quality of service and felt such an increase was undeserved. With this opposition in mind and in recognizing the current state of the economy, the Commission has considered the impact of the proposed increase on the ratepayers of the Company.

The Commission must balance the interests of the Company -- the opportunity to make a profit or earn a return on its

investment, while providing adequate water and sewerage service -- with the competing interests of the ratepayers -- to receive adequate service at a fair and reasonable rate. In balancing these competing interests, the Commission has determined that the proposed schedule of rates and charges is unjust and unreasonable and inappropriate for both the Company and its ratepayers.

Upon this finding it is incumbent upon the Commission to approve rates which are just and reasonable, not only producing revenues and an operating margin within a reasonable range, but which also distribute fairly the revenue requirements, considering the price for which the Company's service is rendered and the quality of that service. The Commission finds that the Company has expended a considerable amount to improve and upgrade the water and sewerage system so that its customers may continue to receive adequate service. The Commission finds that while the proposed level of revenues and corresponding rates and charges are unreasonable, the level of revenues determined to be reasonable results from the Company's efforts in making capital investments in the system and in complying with increasing regulatory standards. In light of those factors as previously discussed and based upon the record on the instant proceeding, the Commission concludes that a fair operating margin that the Company should have an opportunity to earn is 7.52%, which requires annual operating revenues of \$175,405. The following Table reflects an operating margin of 7.52%:

TABLE E

Operating Revenues	\$4,577,323
Operating Expenses	<u>3,745,127</u>
Net Operating Income	832,196
Add: Customer Growth	<u>7,126</u>
Total Income for Return	<u><u>839,322</u></u>
Operating Margin (After Interest)	7.52%

While the Commission is aware of the impact on the customers of granting additional annual revenues in the amount of \$175,405, the Company has provided justification for such an increase, and the schedule of rates and charges approved herein depict just and reasonable rates.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACTS NOS. 14 AND 15

The Commission will spread the increase among the various services offered by the Company in the following manner:

Water

The Company is currently charging \$6.00/month for its basic facility charge (BFC) for residential water service in the Glen Village Subdivision, \$6.50/month BFC for residential water service in the Oak Grove Subdivision, and \$7.00/month BFC in all other residential subdivisions. The Company proposes to increase its BFC for all residential subdivisions to \$8.00/month. The Commission concludes that, except for the Oak Grove Subdivision, the BFC should remain at its current rate. The Commission recognizes that CWS acquired the Oak Grove Subdivision from Oak Grove Estates Utilities, Inc. in 1991 and that its BFC is not the same as other Company subdivisions. The Commission finds that the BFC for the

Oak Grove Subdivision should be increased to \$7.00/month in order to be consistent with the BFC of other subdivisions. The Commission concludes, however, that Glen Village's customers have demonstrated rationale in the past for different charges and to increase their BFC to \$7.00/month would result in a significant increase. Therefore, the BFC for Glen Village will remain at \$6.00/month.

The Company proposed to increase its BFC for commercial customers as follows:

<u>METER SIZE</u>	<u>PRESENT</u>	<u>PROPOSED</u>
5/8" METER	\$7.00	\$ 8.00
1" METER	\$7.00	\$ 20.00
1.5" METER	\$7.00	\$ 40.00
2" METER	\$7.00	\$ 64.00
3" METER	\$7.00	\$128.00
4" METER	\$7.00	\$200.00

In order to achieve the established operating margin, the Commission approves the following BFC for commercial customers:

<u>METER SIZE</u>	<u>APPROVED</u>
5/8" METER	\$ 7.00
1" METER	\$ 17.50
1.5" METER	\$ 35.00
2" METER	\$ 56.00
3" METER	\$112.00
4" METER	\$175.00

The Company proposed to increase the commodity charge for water from \$2.30/1,000 gallons for Glen Village, \$1.70/1,000 gallons for Oak Grove, and \$2.60/1,000 gallons for other subdivisions to \$3.32/1,000 gallons for both residential and commercial customers. To achieve the approved operating margin and level of revenues, the proposed commodity charge should be

increased to \$2.75/1,000 gallons for both residential and commercial customers, with the exception of Glen Village, Oak Grove, Heatherwood, Idlewood, and Calvin Acres.<sup>5</sup> The Commission has determined that the rate for Oak Grove should increase from \$1.70/1,000 gallons to \$2.30/1,000 gallons (rather than \$2.75/1,000 gallons) in order to enable those customers to avoid a disproportional increase in their monthly water bill.

The Commission denies any increase in the commodity charge for Glen Village, Heatherwood, and Idlewood. As previously stated, Glen Village has established rationale for different rates in past proceedings and the Commission perceives no reason to alter its charge for this area. Further, customers in the Heatherwood and Idlewood Subdivisions testified as to receipt of poor quality water. Since these subdivisions are not being considered for bulk water service due to their physical location, the Commission finds these areas should not have to pay an increased commodity charge.

Finally, since Calvin Acres' customers have been billed on a flat rate basis, the Commission requires that the Company give proper notice to those customers before implementing the approved metered rate. Once proper notice has been given to the customers, the Company may bill the customers in Calvin Acres at \$7.00 BFC and \$2.30/month commodity charge.

The Company proposed to change its current tap fee from \$250 for Oak Grove and Calvin Acres to a \$100 water service connection

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5. Calvin Acres was acquired by CWS since its last rate case.

fee per single family equivalent (SFE) and a plant impact fee of \$400 per SFE. The Company is currently authorized to collect a \$100 water service connection fee and a \$400 water plant impact fee for its other subdivisions. The Commission concludes that these current rates should also be approved for Oak Grove and Calvin Acres.

The Company proposed to increase its "customer account charge" to \$27. The Company provided information that this fee was a one-time fee to defray the set up costs of initiating service. The Commission finds this charge to be reasonable and approves the charge for all subdivisions with the exceptions of Glen Village and Calvin Acres. The customer account charge for Glen Village shall remain at the current rate of \$20. The customer account charge for Calvin Acres shall be established at \$20.

The Company proposed to increase its reconnection charge to \$35 for customers in Oak Grove and Calvin Acres. CWS' other customers currently pay a reconnection charge of \$35 if their water service is disconnected for any reason set forth in 26 S.C. Regs. 103-732.5. The Commission hereby approves a \$35 reconnection fee for all subdivisions.

The Company proposes to establish a charge of \$20.00 for meter testing. The Commission concludes that approval of this charge would necessitate a change in its regulations. At the current time the Commission believes a specific charge for meter testing is unnecessary. Therefore, the Commission denies this requested charge.

Sewer

The Company presently charges its sewer collection and treatment customers the monthly charges set forth in Table F below and proposes to increase that charge as noted in Table F.

TABLE F

	PRESENT	PROPOSED
GLEN VILLAGE PER MONTH	\$18.75	\$29.00
OAK GROVE PER MONTH	\$17.00	\$29.00
MOBILE HOMES PER MONTH	\$18.75	\$21.75
RESIDENTIAL PER MONTH	\$25.00	\$29.00
COMMERCIAL PER MONTH	\$25.00/S.F.E.	\$29.00

The Company currently charges its collection only customers \$14.00/month and proposes to increase this charge to \$17.50/month.

To achieve the approved operating margin and level of revenues, the proposed charge for collection and treatment customers should be increased as noted in Table G.

TABLE G

	APPROVED
GLEN VILLAGE PER MONTH	\$18.75
OAK GROVE PER MONTH	\$20.00
MOBILE HOMES PER MONTH	\$19.50
RESIDENTIAL PER MONTH	\$26.00
COMMERCIAL PER MONTH	\$26.00/SFE

Further, the proposed charge for collection only customers should



be increased to \$15.00/month.

The Company proposed to increase its "customer account charge" to \$27 for all subdivisions. The Company provided information that this fee was a one-time fee to defray the set up costs of initiating service. The Commission finds this charge to be reasonable and approves same with the exception of Glen Village and Calvin Acres. The customer account charge for Glen Village will remain \$20. The customer account charge for Calvin Acres will be established at \$20.

The Company proposes to charge its customers to whom it mails notices of disconnection required by 26 S.C. Regs. 103-535.1 \$7.00. Currently, CWS is authorized to charge \$4.00 for this service. The Commission concludes that \$4.00 is an appropriate amount to assess for the clerical and mailing costs of such notices. This fee is hereby approved for all subdivisions.

The Company proposes to increase the pumping charge from \$120 to \$150. This charge is assessed to customers for whom the Company pumps out the interceptor tank. The Commission finds no evidence to support an increase in this charge and, therefore, denies the proposed increase.

The Company proposes to charge \$35 for reconnection when an elder valve is used. This procedure would be used, when available, instead of physically disconnecting the service. The Commission finds this fee appropriate and hereby approves a charge of \$35 when an elder valve is used, instead of the \$250 reconnection charge.

In CWS' last rate increase application the Commission approved

an Environmental Impact Surcharge (EIS) of \$10/month for Roosevelt Gardens Subdivision. See Order No. 90-694 (August 1, 1990). This surcharge applies in those situations where a wastewater treatment system has treatment standards of 21 BOD and 30 TSS (or stricter standards) and which system after January 1, 1990 is required by the South Carolina Department of Health and Environmental Control (DHEC) or other governmental entity to be upgraded through capital improvements. At the time it approved this surcharge the Commission stated it reserved the right to make further findings regarding the fee.

In this proceeding, the Consumer Advocate recommended that the Commission disapprove the continuation of the EIS for the Roosevelt Gardens Subdivision. In light of the fact that CWS has not collected the currently approved EIS, the Commission finds and concludes that continuation of the charge is unnecessary. Therefore, the Commission approves the Consumer Advocate's recommendation.

CWS proposes to discontinue collection of a \$250 sewer tap fee for Oak Grove and, instead, collect a \$100 per SFE service connection charge and \$400 per SFE plant impact fee. The Commission finds that these two proposed charges for Oak Grove are consistent with its current service connection and plant impact fee for other subdivisions. Therefore, the Commission approves the charges.

#### EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NO. 16 AND 17

CWS proposed to enter into several contracts with

municipalities and/or counties for the bulk supply of water. CWS proposed to resell this bulk water to its customers at the rate at which it purchased the water<sup>6</sup> plus a distribution charge of \$1.81/thousand gallons. Company witness Demaree testified that CWS was currently negotiating bulk water supply contracts with York County, Lexington County, and the City of West Columbia. Mr. Demaree explained that CWS bulk water customers would receive an improved quality of water and other benefits from receipt of water from bulk water providers.

Staff witness Burgess testified that, due to various regulatory standards imposed by governmental agencies and customers' desire for improved water quality, he recommended that the Commission consider CWS' proposed rate structure for bulk water purchases. However, Mr. Burgess testified that he did not recommend an automatic "pass through" of the cost of purchased water from a municipality or county. Instead, Mr. Burgess recommended that CWS be required to file its contract with its bulk water supplier with the Commission for approval, that the contract be noticed to CWS' affected customers, and that a hearing be held if the Commission determined it was necessary. Mr. Burgess explained that CWS' contract with a government entity should contain safeguards that would protect its customers from unfair or discriminatory rates or conditions. Mr. Burgess further testified that, when treatment services are furnished by another entity, the

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6. Bulk water customers would be charged the rate charged by the bulk water supplier to CWS in lieu of the commodity charge.

sewer treatment charge should be handled in the same manner as the water "pass through" charge.

Joe L. Rucker, Director of Water Supply, Construction Division, for DHEC testified he encouraged CWS to participate in regional water systems. He explained that regional water systems typically have a higher quality water source from which to draw their water supply. Mr. Rucker testified it was his position that the Company should be allowed to fully recover its wholesale cost of water from bulk water suppliers.

The Commission directs CWS to take all necessary steps to enter into bulk water arrangements where such a water supply is available. The Commission anticipates that there will be no complaints about water quality at future proceedings where a bulk supply of water is available. All contracts between CWS and bulk water suppliers must be filed with the Commission for its approval. CWS will be required to notify all affected customers of its intention to convert to a bulk water supplier and the cost per 1,000 gallons of water as agreed to by the Company in its contract. CWS shall ensure that its contracts contain adequate safeguards to guarantee that its customers are treated in the same manner as direct customers of the bulk water supplier. The Commission also adopts the same procedure for contracts which CWS enters into for sewer treatment services.

In order to produce the approved operating margin the Commission establishes a distribution charge for bulk water

customers of \$1.50/1,000 gallons.<sup>7</sup> As indicated by Mr. Demaree's testimony, CWS' distribution expenses are 54.5% of the cost for distribution and supply. Since the Commission has previously approved a commodity charge of \$2.75/1,000 gallons (which covers the expense for both distribution and supply), the Commission finds that \$1.50/1,000 gallons is the appropriate distribution charge.

The Commission finds and concludes that the rates and charges approved herein achieve a balance between the interests of the Company and those of its customers. These rates and charges result in a reasonable attainment of the Commission's ratemaking objectives in light of applicable statutory safeguards.

IT IS THEREFORE ORDERED:

1. The proposed schedules of rates and charges by the Company are found to be unreasonable and are hereby denied.
2. The schedule of rates and charges attached hereto as Appendix A are hereby approved for service rendered on or after the date of this Order. The schedules are deemed to be filed with the Commission pursuant to S.C. Code Ann. §58-5-240 (1976), as amended.
3. Should these schedules not be placed in effect until three (3) months from the effective date of this Order, the schedules shall not be charged without written permission from the Commission.
4. The Company shall maintain its books and records for

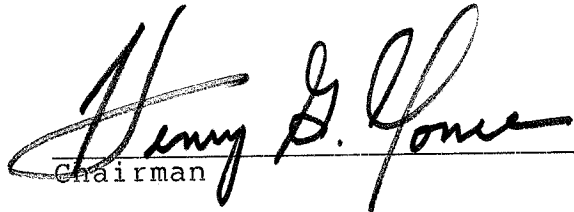
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7. This distribution charge is in addition to the BFC approved earlier in this Order and the contract rate between CWS and the bulk water supplier.

water and sewer operations in accordance with the NARUC Uniform System of Accounts for Class B Water and Sewer Utilities, as adopted by this Commission.

5. This Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:

  
Chairman

ATTEST:

  
Executive Director

(SEAL)

APPENDIX A

CAROLINA WATER SERVICE, INC.

FILED PURSUANT TO DOCKET NO. 91-641-W/S- ORDER NO. 93-402  
EFFECTIVE DATE: MAY 11, 1993

**SCHEDULE OF RATES AND CHARGES  
WATER**

1. Monthly Charges

Residential

Basic Facilities Charge -- Residential  
Monthly charge per single family  
house, condominium, mobile home  
or apartment unit:

\$7.00 per unit

Commodity Charge:

\$2.75 per 1,000  
gallons or 134 cft

Idlewood &  
Heatherwood

Basic Facilities:  
Commodity Charge:

\$7.00  
\$2.60 per 1,000  
gals.

Glen Village:

Basic Facilities:  
Commodity:

\$6.00  
\$2.30 per 1,000  
gals.

Oak Grove Residential

Basic Facilities:  
Commodity:

\$7.00  
\$2.30 per 1,000  
gals.

Oak Grove Commercial

Basic Facilities:

5/8 "meter

2" meter

Commodity:

\$ 7.00  
\$56.00  
\$2.30 per 1,000  
gals.

Calvin Acres

Basic Facilities:

Commodity:

(Flat Rate Applies Until Noticed)

\$7.00  
\$2.30 per 1,000  
\$15.00

Commercial

5/8" meter	\$ 7.00
1" "	\$ 17.50
1.5" "	\$ 35.00
2" "	\$ 56.00
3" "	\$112.00
4" "	\$175.00

Commodity Charge: \$2.75 per 1,000  
gallons or 134 cft

2. Charge for Water Distribution Only

Where water is purchased from a government body or agency or other entity for distribution and resale by the Company, the following rates apply:

Residential

Basic Facilities Charge - Residential  
Monthly charge per single family  
house, condominium, mobile home  
or apartment unit:

\$7.00 per unit

Commodity charge:

\$1.50 per 1,000  
gallons or 134 cft

Commercial - monthly charge  
by meter size.

Commercial

5/8" meter	\$ 7.00
1" "	\$ 17.50
1.5" "	\$ 35.00
2" "	\$ 56.00
3" "	\$112.00
4" "	\$175.00

Commodity charge:

\$1.50 per 1,000  
gallons or 134 cft

The Utility will also charge for the cost of water purchased from the government body or agency, or other entity. The charges imposed or charged by the government body or agency, or other entity providing the water supply will be charged to the Utility's affected customers on a pro rata basis without markup.



Commercial customers are those are not included in the residential category above and include, but not limited to hotels, stores, restaurants, offices, industry, etc.

The Utility will, for the convenience of the owner, bill a tenant. However, all arrearages must be satisfied before service will be provided to a new tenant or before interrupted service will be restored. Failure to pay for services rendered to a tenant may result in service interruptions.

When, because of the method of water line installation utilized by the developer or owner, it is impractical to meter each unit separately, service will be provided through a single meter, and consumption of all units will be averaged; a bill will be calculated based on that average and result multiplied by the number of units served by a single meter.

### 3. Nonrecurring Charges

A) Water Service Connection	\$100 per SFE*
B) Plant Impact Fee	\$400 per SFE*

The nonrecurring charges listed above are minimum charges and apply even if the equivalency rating of a non residential customer is less than one (1). If the equivalency rating of a non residential customer is greater than one (1), then the proper charge may be obtained by multiplying the equivalency rating by the appropriate fee. These charges apply and are due at the time new service is applied for, or at the time connection to the water system is requested.

### 4. Account Set-Up and Reconnection Charges

- a. Customer Account Charge: A fee shall be charged as a one-time fee to defray the costs of initiating service.

Calvin Acres	\$20.00
Glen Village	\$20.00
All Others	\$27.00

- b. Reconnection Charges: In addition to any other charges that may be due, a reconnection fee of thirty five dollars (\$35.00) shall be due prior to the Utility reconnecting service which has been disconnected for any reason set forth in Commission Rule R.103-732.4. The amount of the reconnection fee shall be in accordance with R.103-732.4 and shall be changed to conform with said rule as the rule is amended from time to time. Customers who ask to be reconnected within nine months of disconnection will be charged the monthly basic facility charge for the service period they were disconnected. The reconnection fee shall also be due prior to reconnection if water service has been disconnected at the request of the customer.

5. Billing Cycle

Recurring charges will be billed bimonthly in arrears. Nonrecurring charges will be billed and collected in advance of service being provided.

6. Late Payment Charges

Any balance unpaid within twenty-five (25) days of the billing date shall be assessed a late payment charge of one and one-half percent (1 1/2%) for each month, or any part of a month, that said payment is late.

7. Tax Multiplier

Except as otherwise provided by contract approved by the South Carolina Public Service Commission, amounts paid or transferred to the Utility by customers, builders, developers or others, either in the form of cash or property, shall be increased by a cash payment in an amount equal to the income taxes owed on the cash or property transferred to the Utility by customers, builders, developers, or others and properly classified as a contribution or advance in aid of construction in accordance with the Uniform System of Accounts. Included in this classification are water service connection charges and plant impact fees.

8. Construction Standards

The Utility requires all construction to be performed in accordance with generally accepted engineering standards, at a minimum. The Utility from time to time may require that more stringent construction standards be followed.

9. Extension of Utility Service Lines and Mains

The Utility shall have no obligation at its expense to extend its utility service lines or mains in order to permit any customer to connect to its water system. However, anyone or any entity which is willing to pay all costs associated with extending an appropriately sized and constructed main or utility service line from his/her/its premises to any appropriate connection point, to pay the appropriate fees and charges set forth in this rate schedule, and comply with the guidelines and standards hereof, shall not be denied service, unless water supply is unavailable or unless the South Carolina Department of Health and Environmental Control or other government entity has restricted the Utility from adding for any reason additional customers to the serving water system. In no event will the Utility be required to construct additional water supply capacity to serve any customer or entity without an agreement acceptable to the Utility first having been reached for the payment of all costs associated with adding water supply capacity to the affected water system.

\* A Single Family Equivalent (SFE) shall be determined by using the South Carolina Department of Health and Environmental Control Guidelines for Unit Contributory Loadings for Wastewater Treatment--1990.

**SCHEDULE OF RATES AND CHARGES  
SEWER**

1. Monthly Charges

Residential - monthly charge per single-family house, condominium, villa, or apartment unit:	\$26.00 per unit
Glen Village	\$18.75 per unit
Oak Grove Residential	\$20.00 per unit
Commercial	\$20.00 per SFE*
Mobile Homes - monthly charge:	\$19.50 per unit
Commercial - monthly charge:	\$26.00 per SFE*

Commercial customers are those not included in the residential category above and include, but are not limited to, hotels, stores, restaurants, offices, industry, etc.

Charge for Sewage Collection Service Only

When sewage is collected by the Utility and transferred to a government body or agency, or other entity, for treatment, the Utility's rates are as follows:

Residential - monthly charge per single-family house, condominium, or apartment unit	\$15.00 per unit
Commercial - monthly charge per single-family equivalent	\$15.00 per SFE*

The Utility will also charge for treatment services provided by the government body or agency, or other entity. The rates imposed or charged by the government body or agency, or other entity providing treatment will be charged to the Utility's affected customers on a pro rata basis, without markup. Where the Utility is required under the terms of the 201/208 Plan to interconnect to the sewage treatment system of a government body or agency or other entity and tap/connection/impact fees are imposed by that entity, such tap/connection/impact fees will be charged to the Utility's affected customers on a pro rata basis, without markup.

In the case of a landlord/tenant relationship where the tenant is the customer, the Utility may require the landlord to execute an agreement, wherein such landlord agrees to be responsible for all charges billed to the premises in accordance with the approved tariffs and the Rules of the Commission, and said account shall be considered the landlord's and tenant's account. In the event the landlord refuses to execute such an agreement, the Utility may not discontinue service to the premises unless and until the tenant

becomes delinquent on his account or until the premises are vacated. The Utility may discontinue service pursuant to R.103-535.1 if the account is delinquent or may discontinue service at the time the premises are vacated and the Utility shall not be required to furnish service to the premises until the landlord has executed the agreement, and paid any reconnection charges.

Solids Interceptor Tanks

For all customers receiving sewage collection service through an approved solids interceptor tank, the following additional charges shall apply.

Pumping Charge: At such time as the Utility determines through its inspection that excessive solids have accumulated in the interceptor tank, the Utility will arrange for pumping the tank and will include \$120.00 as a separate item in the next regular billing to the customer.

Pump Repair or Replacement Charge: If a separate pump is required to transport the customer's sewage from solids interceptor tank to the Utility's sewage collection system, the Utility will arrange to have this pump repaired or replaced as required and will include the cost of such repair or replacement and may be paid for over a one year period.

Visual Inspection Port: In order for a customer who uses a solids interceptor tank to receive sewage service from the Utility or to continue to receive such service, the customer shall install at the customer's expense a visual inspection port which will allow for observation of the contents of the solids interceptor tank and extraction of test samples therefrom. Failure to provide such a visual inspection port after timely notice of not less than thirty (30) days shall be just cause for interruption of service until a visual inspection port has been installed.

2. Nonrecurring Charges

- |                                    |                |
|------------------------------------|----------------|
| A) Sewer Service Connection Charge | \$100 per SFE* |
| B) Plant Impact Fee                | \$400 per SFE* |

The nonrecurring charges listed above are minimum charges and apply even if the equivalency rating of a non residential customer is less than one (1). If the equivalency rating of a non residential customer is greater than one (1), then the proper charge may be obtained by multiplying the equivalency rating by the appropriate fee. These charges apply and are due at the time new service is applied for, or at the time connection to the sewer system is requested.

3. Notification, Account Set-Up and Reconnection Charges

- a. Notification Fee: A fee of four dollars (\$4.00) shall be charged each customer to whom the Utility mails the notice as required by Commission Rule R. 103-535.1 prior to service being

discontinued. This fee assesses a portion of the clerical and mailing costs of such notices to the customers creating the cost.

- b. Customer Account Charge: A fee shall be charged as a one-time fee to defray the costs of initiating service. This charge will be waived if the customer also takes water service.

Calvin Acres	\$20.00
Glen Village	\$20.00
All Others	\$27.00

- c. Reconnection Charges: In addition to any other charges that may be due, a reconnection fee of two hundred fifty dollars (\$250.00) shall be due prior to the Utility reconnecting service which has been disconnected for any reason set forth in Commission Rule R.103-532.4. The amount of the reconnection fee shall be in accordance with R.103-532.4 and shall be changed to conform with said rule as the rule is amended from time to time. Where an elder valve has been previously installed, a reconnection charge of thirty five dollars (\$35.00) shall be due. Customers who ask to be reconnected within nine months of disconnections will be charged the monthly service charge for the service period they were disconnected.

#### 4. Billing Cycle

Recurring charges will be billed bimonthly in arrears. Nonrecurring charges will be billed and collected in advance of service being provided.

#### 5. Late Payment Charges

Any balance unpaid within twenty-five (25) days of the billing date shall be assessed a late payment charge of one and one-half percent (1 1/2%) for each month, or any part of a month, that said payment is late.

#### 6. Tax Multiplier

Except as otherwise provided by contract approved by the South Carolina Public Service Commission, amounts paid or transferred to the Utility by customers, builders, developers or others, either in the form of cash or property, shall be increased by a cash payment in an amount equal to the income taxes owed on the cash or property transferred to the Utility by customers, builders, developers, or others and properly classified as a contribution or advance in aid of construction in accordance with the Uniform System of Accounts. Included in this classification are sewer service connection charges and plant impact fees.

7. Toxic and Pretreatment Effluent Guidelines

The Utility will not accept or treat any substance or material that has been defined by the United States Environmental Protection Agency ("EPA") OR THE SOUTH CAROLINA DEPARTMENT OF HEALTH AND ENVIRONMENTAL CONTROL ("DHEC") as a toxic pollutant, hazardous waste, or hazardous substance, including pollutants falling within the provisions of 40 CFR §129.4 and §401.15. Additionally, pollutants or pollutant properties subject to 40 CFR §403.5 and §403.6 are to be processed according to the pretreatment standards applicable to such pollutants or pollutant properties, and such standards constitute the Utility's minimum pretreatment standards. Any person or entity introducing any such prohibited or untreated materials into the Company's sewer system may have service interrupted without notice until such discharges cease, and shall be liable to the Utility for all damages and costs, including reasonable attorney's fees, incurred by the Utility as a result thereof.

8. Construction Standards

The Utility requires all construction to be performed in accordance with generally accepted engineering standards, at a minimum. The Utility from time to time may require that more stringent construction standards be followed.

9. Extension of Utility Service Lines and Mains

The Utility shall have no obligation at its expense to extend its utility service lines or mains in order to permit any customer to discharge acceptable wastewater into one of its sewer system. However, anyone or any entity which is willing to pay all costs associated with extending an appropriately sized and constructed main or utility service line from his/her/its premises to an appropriate connection point, to pay the appropriate fees and charges set forth in this rate schedule and to comply with the guidelines and standards hereof, shall not be denied service, unless treatment capacity is unavailable or unless the South Carolina Department of Health and Environmental Control or other government entity has restricted the Utility from adding for any reason additional customers to the serving sewer system. In no event will the Utility be required to construct additional wastewater treatment capacity to serve any customer or entity without an agreement acceptable to the Utility first having been reached for the payment of all costs associated with adding wastewater treatment capacity to the affected sewer system.

\* A Single Family Equivalent (SFE) shall be determined by using the South Carolina Department of Health and Environmental Control Guidelines for Contributory Loading for Wastewater Treatment--1990. Where applicable, such guidelines shall be used for determination of the appropriate monthly service, service connection charge and plant impact fee.